CII report on rate of return to foreign investors in the power sector

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Will the: Minister of POWER be pleased to state:

(a) whether it is a fact that a report prepared by C.I.I, presented to Gov ernment indicates that the foreign in vestors in the power sector desire a rate of return of more than 25 percent if so, that are the facts in this regard *and* Government's reaction thereto;

(b) what are the other important points made in the C.I.I, report; cud

(c) whether Government had earlier assured a 16 per cent return to foreign investors in' power Sector and 'f so, in what manner this was to be done?

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRI P. V. RANGAYYA NAIDU): fa) and (c) The CII report states that currently foreign firms require 25 per cent internal rate of return on equity. The Electricity (Supply) Act, 1948 and the 'notifications thereunder prescribe the manner in which SEBs, generating and licensing companies should determine the tariff. The statutory provisions allow recovery of costs of generation and a rate of return at a particular level for these organisations through the tariff. In case of generating companies, the tariff provisions permit in-clusion of a 16 per cent return on equity as a part of the fixed cost at a certain level of performance with incentives for further return on equity at prescribed higher levels of generation. In case of foreign equity, the return upto 16 per cent is protected from foreign exchange fluctuations. These tariff provisions are felt to be attractive in encouraging private investments into the power sector.

(b) The important points made in the CD report we in the Statement.

Statement

Some of the other important recom-mendations mentioned in the report are:

(i) Lack of clarity in the tendering and evaluation process is a major source of delay. Immediate steps need to be taken by GOI to rationalise the process of selection and approvals.

(ii) Single Window clearance-one at Centre and one at State level.

(iii) Clear statement from GOI on the issue regarding GOI guarantee i.e., the availability of the guarantees for pioneer projects and the system *of* guarantees.

(iv) A dialogue between CEA, MOP and representatives of the power industry to explore and define the optimal role for CEA with respect to private sector projects. Examples of US and UK are good ones, and should be considered in such a dialogue.

(v) CEA avaluation should be addressed to the key concern of the country such as:

— the guarantee the promoter can given in terms of power output and annual sale of energy;

— the financing plan of the promoter;

— a long term tariff structure and the economies thereof.

A study should be performed to reconcile the two-ways of thinking. CEA is used to scaling estimates double. Private developers on the other hand v_e providing fixed-price turnkey contracts. An equitable arrangement between developers and SEBs and a clear statement by GOI on this issue.

(vi) Overseas developers views are that 16 per cent return on equity (ROE) is not adequate and they would expert ROE in the high twenties (27/28 per rest) which should be feasible with

proper indexing of better PLF and heat rates and is consistent with the returns in the US Private market in early 1980s. Overseas developers not interested below 25 per cent IRR.

(vii) GOI should take steps to resolve the following issues to mutual satisfaction:

*Get rid off Tax Holiday

*Depreciation to be linked to Tariff

*10 per cent Reserves as outlines in the Company Law to be removed

*Fixed charges to be calculated at 5500 hrs of operation and Bonus to begin from 5500 hrs rather than 6000 hrs. his operation.

(viii) Clear Policy statement from GOI on Tariff.

(ix) GOI should consider guaranteeing the obligations of government-owned monopoly fuel suppliers and acceptance of this till such time proper infrastructure to meet the expectations of developers are in place.

(x) Upfront equity investment should be treated as a subordinated debt during the period of construction.

(xi) GOI to raise funds overseas and make it available to the Indian Financial Institutions in a manner that allows the ultimate customers to avail the same of LIBCR rates. Alternatively GOI can raise a Rupee power funds similar to G°'d Bond Scheme.

(xii) Private power developers plan for better availability by introducing redundancies wherever feasible and built-in design features to provide for the future. In general the overall design will be tailored for better availability and not a low cost approach. Private power developers supports this approach from PLF improvement point of view.

(xiii) Each developer should come out with a plan of ash utilisation at the time of bidding and constructive proposals should merit positive consi-ceration in the evaluation process.

\xiv) Very clear technical conditions between developer and power purchaser consistent with international norms.

(xv) Time frame approach for both developers as well as the sanctioning authority on various activity levels for any particular project.

(xvi) Overseas developers who are specialists in taking over old inefficient thermal plants and improving their performances at much less costs and time frame compared to new stations would also ensure that capital cost? per MWh produced will go down below Indian average. GOI encourage this mode and publicise widely the plants which would be open for rehabilitation for oversees developers.

(xvii) Focus on better distribution of power from power rich states as Wheelers and fuel rich states as 'Exporters' GOI clarity on the ro!e of Power Grid Corporation viz a Power Generators in facilitating better distribution of power.

(xviii) Private power generating higher availability as well as performance their perceived higher costs may turn out to be actually lower. Also extensive subsides and under pricing of power gives an unrealistic picture of the cost generating and selling power. CII proposes to do a specific study to clear this ambiguity paving for better understanding between cower developers and purchasers.

(xix) Recommends that the various stages of appraisal of the seventy three proposed projects be made known and specific time frames be allocated for stagewise approval.